

CHINA, 1937

PSF: China, 1937

Box 3

DEPARTMENT OF STATE
DIVISION OF FAR EASTERN AFFAIRS

January 9, 1937.

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CONFIDENTIAL.

The Situation in the Far East.

Reports indicate that the situation at Sian (Shensi Province) is becoming daily more acute due (1) to the threatened outbreak of hostilities between Government forces and the forces of General Yang Hu-cheng (one of the principal in the Sian revolt and at present in command at Sian) who refuses to accept the Government's order cashiering him; (2) to the spread of communist influence in Sian among soldiers and the populace; and (3) to the possibility that the Sian troops may join forces with Chinese communist armies in Shensi and Kansu Provinces. Our Embassy in China is taking steps looking toward the protection and evacuation of American citizens in Sian and other dangerous areas.

The Japanese Minister for Foreign Affairs is reported to have stated in a radio broadcast (1) that Japan had concluded the Japanese-German anti-communist pact because of anxiety to save China and "Manchukuo" from communist penetration; (2) that Japan had not joined a Fascist bloc; and (3) that Japan's fundamental policy is still aimed at increasing friendship with the United States and Britain and at reaching diplomatic understanding with the Soviet Union and with China.

Although conditions in China are unsettled, generally speaking the situation in the Far East does not at present give cause for any serious apprehension.

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THE SECRETARY OF THE TREASURY
WASHINGTON

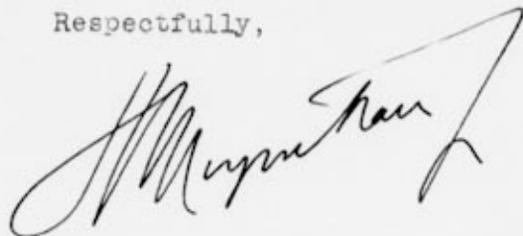
January 25, 1937

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P.F.*

My dear Mr. President:

The Chinese Ambassador came in today with a secret and confidential message from T. V. Soong, who wished to inform me that the inclosed account in the New York Times, from Hong Kong, is the true story of what has recently taken place in China.

Respectfully,



The President,
The White House.

ANTI-CHIANG PLOT IS LAID TO NANKING

Clique That Insisted on Punitive Expedition to Sian Held to Have Sought His Death.

VERSION ABSOLVES CHANG

Coup Called Sincere Attempt at Unity, Not a Mutiny—Suppressed Message Bared.

WIRELESS TO THE NEW YORK TIMES.

HONGKONG, Jan. 11.—Another version of the Sian coup of Dec. 12 has been received by this correspondent. According to it, the detention of Generalissimo Chiang Kai-shek was not actually mutiny and the generalissimo's life was far more endangered by the government's punitive expedition and the government's aerial bombers than by his captors.

Moreover, this version has it, a small but powerful Nanking cabal actually posed behind the legalistic statement that the mutiny must be suppressed and was seeking to put an end to Chiang Kai-shek's life. Events proved, it is declared, that these men had long been entrenching themselves against his possible death and had even apportioned offices and territories among themselves.

Documents Support Version

A series of documents supporting this version has come under the writer's observation. Entirely contradicting previous widely publicized versions of the Sian affair, they indicate that General Chang Hsueh-liang, instead of typifying the worst characteristics of Chinese politics, which for years have blocked the country's unification, in reality acted desperately, hoping to force reforms at home and sturdier policies abroad.

The Sian coup, it is declared, also established the fact that the old-style treacherous political militarism has become strongly entrenched in certain inner circles of the government.

These revelations, if true, doubtless presage drastic changes in high government circles if Chiang Kai-shek is to retain his paramount position and startling alterations in foreign policy would also follow.

Chiang Kai-shek, according to the latest version, was not detained at Sian because a plot existed for his overthrow, nor was he held as a means of forcing millions of dollars from the government or his family. Chang Hsueh-liang for weeks before the crisis endeavored time and again to induce the generalissimo to listen to his pleas for various reforms and changes of policy and finally seized the person of

his superior officer solely, it is asserted, as a means of gaining a hearing.

Pled for Consideration

Remarkable scenes ensued after Chiang Kai-shek was taken to Sian under heavy guard. The young "marshal" repeatedly stood before him hours on end, refusing to be seated in the presence of his chief, while he pleaded for dispassionate consideration of his proposals.

From Dec. 14 onward Chang Hsueh-liang sent the government repeated telegrams reiterating his pacific intentions and expressing his readiness to release the generalissimo if the government sent a suitable emissary. Chiang Kai-shek's release, according to this version, could easily have been effected within four days after the coup, but instead the crisis was prolonged until the close of the fourteenth day.

It is now said that many of the telegrams from the "young marshal" were entirely suppressed, the Sian situation was misrepresented and T. V. Soong, former Finance Minister, and Mrs. Chiang Kai-shek were actually forcibly prevented from leaving Nanking for Sian.

During this period intensive propaganda was carried on representing Chang Hsueh-liang as "the supreme traitor of 10,000 years" and Chinese public opinion was wrought to the highest pitch of excitement, while Nanking rang with declarations that "the prestige of the government exceeds in importance the welfare of any individual."

Although urgent representations were made to the effect that the advancing punitive expedition and aerial bombing of Sian endangered Chiang Kai-shek's life, military preparations were rushed ahead and aerial bombings were ordered despite protests because the planes designated for use for this purpose were a portion of those that the Chinese public had presented to Chiang Kai-shek on the occasion of his fiftieth birthday last October.

Pilots Avoided Bombing

In some cases pilots loyal to the generalissimo merely flew from Loyang beyond Tungwan Pass, dropped their bombs upon open fields and returned, reporting they had bombed Sian. This occurred while Mr. Soong, Mrs. Chiang Kai-shek and W. H. Donald, Chiang Kai-shek's Australian adviser, were in Sian arranging for the generalissimo's release.

Regarded as illustrative of the basic issues underlying the Sian coup is an explanatory statement addressed to the general public in China, the United States and Europe which Chang Hsueh-liang telegraphed from Sian Dec. 19. This remarkable statement was suppressed in its entirety, allegedly by the Nanking cabal, which is said to have insisted upon a punitive expedition, announcing its readiness to use aerial bombers to "wipe Sian from the face of the earth."

Chang Hsueh-liang began his statement by declaring that he realized confirmation of his action was worldwide, because of lack of knowledge of the circumstances leading to the generalissimo's detention. Admitting that the forceful detention of any one was virtually indefensible, the young marshal denied cherishing personal ambitions, also denied attempting to extract personally advantageous terms, and then said:

"The detention came from a simple effort to have assurance that China's policy would be revised definitely to take up arms in defense of our country and to have a positive end put to the tremendous annual wastage of millions in Chinese money, Chinese lives and Chinese property involved in incessant civil wars and the perpetual pursuit of so-called bandits.

"These so-called bandits are still

Chinese despite their views, at the worst are not a menace to their country, as are the Japanese, and have in them, if the authorities would take the trouble to ascertain, patriotism, reason and reform of the spirit which might be utilized in the country's service."

Stresses Japanese Inroads

Chang Hsueh-liang then declares that while vast sums have been spent in chasing the so-called bandits, approximately one-eighth of China's area has been allowed to fall into the grip of the Japanese and the central government has thus far failed to do one thing openly and courageously to uphold national interests or even plainly to intimate to Japan that her predatory policies must cease.

"The world has often enough stood amazed at the apparent cowardice of China and has been horror-struck that she lifts not one hand to defend herself, her sovereign rights or her people," the statement continues.

"I have been blamed and I have not shirked responsibility, but I am not the central government and therefore I am unable to commit this country to war. But I want to be ordered by the generalissimo to fight the Japanese and to see this country nationally engaged in an open effort to protect itself, and what I see instead is the suppression of public opinion and public thoughts regarding this vitally important national question.

"When such a condition exists it is obvious that changes must be made, and all that I and my associates want is the development of a resolute national policy to defend our country, to initiate and carry out reforms devised to have China properly developed and to give protection to the lives and the properties of the people.

"We want by any means possible to end the passive resistance on the part of certain officials who contrive to frustrate efforts at reforms of a progressive nature and who indeed are responsible for the non-fulfillment or practical failure of plans initiated by the generalissimo himself."

Would Fight Foreign Foe

Above all, Chang Hsueh-liang's statement proceeds, he and his associates want China's armed forces used against the invading foreign foe and not against the Chinese people.

"The national army has not moved one step against Japan, but swift as thought we see it being mobilized against me now while our enemy is within our country, fattening at will upon its riches," it goes on.

"The world has been presented with a spectacle the like of which has not hitherto disgraced history, and we are trying to prevent the recurrence of such a spectacle forevermore. That, in fact, is to be

the end of all this effort, to get the generalissimo to abandon the ideas of officials who militate against the very life of China."

The statement adds that the young "marshal's" group desires the continuance of Chiang Kai-shek's leadership and does not wish to curtail his powers but wants them marshaled on behalf of the broad interests of China, not in the narrow interests of selfish and unpatriotic cliques. The statement continues:

"The generalissimo's prolonged stay here is not of our doing. As soon as Mr. Donald had arrived here on Dec. 14 and the generalissimo had recovered somewhat from his natural indignation and reluctance hitherto to talk, he calmly enough discussed the problems confronting us all and by the 15th had agreed in principle with the points we had in view for the adoption of a defined national policy and the effecting of changes permitting the nation to develop logically and freely politically and materially.

Welcomed Any Emissary

"I therefore telegraphed on the night of the 14th, welcoming any one to come from Nanking to hear the generalissimo's views and arrange with him for the necessary safeguards to prevent the development of civil war.

"The generalissimo naturally vigorously demanded that he be released and proceed to Nanking, but while I personally had full confidence that he would carry out his promises, it was impossible to risk his being persuaded after his arrival in Nanking to continue the warfare his colleagues there had launched and which they undoubtedly would desire to keep going in preference to materializing active defense against Japan."

Further stressing that it was strange Nanking had not sent any emissary, Chang Hsueh-liang closed his statement with the declaration that he was ready to proceed to Nanking, stand trial before the nation and accept punishment.

That a virtual impasse has developed in Nanking is evidenced by the fact that although Chang Hsueh-liang has been pardoned he is kept under surveillance by the Military Affairs Commission and also that while Chiang Kai-shek is in retirement at Fenghua, armies have been ordered to march through Shensi and occupy Sian and Lanchow, Kansu's capital.

This military movement is deplored by those who feel that military pressure now will probably result in having Chang Hsueh-liang's and the other armies involved in the Sian coup join with the Communist forces.

Pretext for Japan Seen

Any such development would give Japan the desired pretext for drastic action, it is asserted, and this is believed by certain circles to be precisely what the Nanking "ca-

bal" was aiming to achieve when it sought to launch a punitive expedition against Sian.

The upshot of the Sian affair, according to the version now presented, has been that Chiang Kai-shek did not find enemies to the continuance of his power in Sian but his most dangerous enemies in his own capital.

In his retirement at his ancestral home at Fenghua the generalissimo today must be fighting probably the gravest battle of his whole career. He must decide whether to compromise with the reactionary clique in his own capital or whether to oust them, by force if necessary. Then he might proceed rapidly toward founding a popular constitutional government and rallying all the country's patriotic forces to his support for resistance against Japan and war if necessary as the only way of saving China's self-respect.

Evil Motives Denied

WIRELESS TO THE NEW YORK TIMES.

SHANGHAI, Jan. 11.—Deplored hints published in a British-owned daily in Shanghai, Yeh Chut-sang, secretary general of the Kuomintang's central executive committee, declares that the Sian outbreak confronted the government with the double duty of rescuing Generalissimo Chiang Kai-shek and upholding law and order.

"Groundless criticisms and malicious conjectures defamatory to the central authorities" is the way Yeh Chut-sang characterizes the newspaper's suggestions that a punitive expedition was ordered because of evil motives by any clique or that any attempt had been made to seize power while the generalissimo was detained. In defense of the government's action, he states:

"After careful consideration it concluded that the twofold duty could not be carried out in a better way than by taking stern, swift measures to deal with the situation and by ordering a punitive expedition against the rebels.

"It was felt that only by means of stern measures could it hope to prevent further aggravation of the situation and that only military pressure could hope to bring about the speedy rescue of the generalissimo.

"Furthermore, to parley with the rebels would not only have meant putting a premium on military rebellion but also would have caused the rebels to intensify their demands and would have led to protracted negotiations and unexpected developments."

Chang Golfs Under Guard Of 8 Submachine Guns

By The Associated Press.

NANKING, China, Jan. 11.—General Chang Hsueh-liang, under technical detention as a result of his coup at Sian Dec. 12, when he abducted Generalissimo Chiang Kai-shek, played golf at the Nanking Country Club today under the muzzles of eight submachine guns.

Whether the eight guards, each lugging a weapon as they accompanied him over the course, were there to protect the "young marshal" or were detailed to prevent a possible escape went unexplained.

After the round the guards gathered up the golf clubs and, still carrying the submachine guns, clambered into automobiles to return to the residence of T. V. Soong, brother-in-law of Chiang Kai-shek, where Chang Hsueh-liang is a "prisoner."



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DEPARTMENT OF STATE
WASHINGTON

March 2, 1937

My dear Mr. President:

The matter of the China Consortium, dealt with in the proposed telegram hereto attached, is important. The existing Consortium Agreement came into existence in 1920 in consequence of an initiative taken by the American Government, in the Wilson administration, in 1918. The Agreement was concluded between banking groups of four countries, with the blessing of their governments (American, British, French and Japanese) respectively, providing for cooperation in and sharing of loans to China. The Consortium has never made any loans, but the existence of the Agreement has prevented the borrowing by China of money from independent and irresponsible sources.

In this administration, in response to inquiries from the American banking group, we have taken the position that we favor continuance in existence of the Agreement, with the thought that at sometime the Consortium might be able to do some business as originally intended and the further thought that any move toward termination

The President,
The White House.

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of the Agreement might have a disturbing effect as regards the general Far Eastern situation (in other words, we favored letting the matter of the Consortium remain in statu quo).

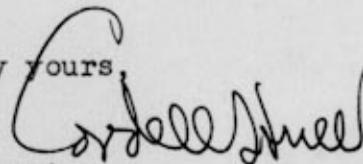
During the past few months representatives of the British banking group have been in correspondence with the American banking group, proposing that certain business in China available to British interests be excepted from provisions of the Consortium Agreement or regulations which have been adopted by the banking groups thereunder. To this, the American banking group, with the Department concurring, has not been able to give assent, for the reason that such action would strike at the very root of the principle on which the Consortium is based. Now, the British Government comes forward with a memorandum in which, after pointing out various facts in the situation and affirming, in effect, that they would welcome the devising of some method by which at the same time the Consortium would be preserved and the safeguarding specifications of the Consortium Agreement be modified, they in conclusion propose definitely that the Consortium Agreement be terminated. Their memorandum is attached hereto.

We have given the matter very careful consideration. We talked with representatives of the American group. We would gladly offer suggestions whereby the Consortium might be kept in existence and at the same time the
practical

practical issues be satisfactorily met. But we do not see how this can be done: the Consortium Agreement has both negative and positive features; a dropping of the latter with retention of the former would produce a resultant possessed of little value; and it would probably lead to new perplexities in place of those which it might resolve. We remain, however, open to suggestions. We therefore have drafted a telegram in which we accept the British Government's outline of the facts, express our confidence in the principle upon which the Consortium Agreement was based, and give assent, with expression of our regret, to a procedure on the part of the banking groups, if and when, directed toward termination of the Consortium Agreement; and, in connection with our formal reply, we instruct the Embassy in London to call attention to certain inconsistencies, as they appear to us, in the statements which the British have made in their approaches to us on the subject. A part of our effort is to make the record show clearly that the proposal that the Agreement be terminated did not originate in this country. We have informed representatives of the American Group of our position and of the substance of this draft and their views are in accord therewith.

I shall appreciate an indication from you whether the proposed telegram to our Embassy at London meets with your approval.

Faithfully yours,



Enclosures:

Draft telegram.

Memorandum from British Government.

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Department of State

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February 26, 1937.

New draft prepared

AMEMBASSY,

LONDON (England).

Your telegram 57, February 10, 5 p.m., and despatch 2850 of February 11 in regard to China Consortium.

One. It is the Department's desire that Atherton, unless he perceives objection thereto, hand to Cadogan, as the reply of the American Government to the Foreign Office memorandum of February 10, a memorandum reading as follows:

QUOTE The American Chargé d'Affaires has the honor to refer to the memorandum of February 10, 1937, on the subject of the China Consortium which on the date indicated was handed to the Chargé by Sir Alexander Cadogan.

The American Government is appreciative of the frank expression of the views of the British Government as set forth in the memorandum under reference and has given most careful consideration thereto.

In the opinion of the American Government the Consortium Agreement was soundly conceived toward serving the best interests of all concerned. Although it must be admitted that the

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by operator M., 19

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Consortium has not achieved what was envisaged at the time of its inception, the existence of the Agreement has, it is believed, served as an effective deterrent to the making to China of certain types of loans which, had they been made, would in all probability have retarded rather than advanced progress in that country, and it has in effect encouraged the government and the people of China to adopt an attitude of greater self-reliance and to resort in increased measure to domestic resources, financial and otherwise, for the fulfillment of their needs. These services, although of a negative character, have operated to the distinct benefit of China and probably of other countries interested and concerned.

The American Government desires, ~~however, neither to impede the course of constructive development in China nor~~ *not* to place in the way of the British Group obstacles which might prevent the acceptance by British interests of the offer recently made by the Chinese Government of a contract for the construction of a railway from Canton to Meihsien. Therefore, and in view of the pertinence and importance of those factors in the existing situation, as set forth in the memorandum under reference, and of the opinion ^{in the light} ~~of the British~~ *RLW*

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Sent by operator M., 19.....

OPERATOR

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expressed by the British Government that features in the existing situation render perseverance in adherence to the existing Agreement impracticable and that in the light of the attitude of the Chinese Government toward the Consortium no good purpose would be served by attempting to revise the Agreement, the American Government will, although with sincere regret, inform the American banking group party to the Consortium Agreement of the British Government's proposal that the Agreement be dissolved and will state that this Government will interpose no repeat no objection to participation by the American Group in negotiations, if and when proposed, among the banking groups, looking toward dissolution of the Consortium, as proposed, ~~by the British Government~~. UNQUOTE

Two. You may add orally that your Government is sympathetically disposed in principle toward the suggestion made at one point in the British Government's memorandum that effort should be made to QUOTE discover whether there is any method by which, while restoring to its individual members the required liberty of action as regards industrial enterprises, the major objects of the Consortium could be attained

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by operator _____ M., _____, 19 _____

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by keeping in being co-operation between the governments concerned (including the Chinese Government) UNQUOTE; also toward the view of the British Government, as reported in your telegram 101, February 26, 2 p.m., that preferable to a complete abolition of the Consortium and all that such abolition might imply would be a modification of the Consortium (Agreement); but that there seems to us to be an irreconcilable inconsistency between those suggestions and the statement of a definite conclusion arrived at which appears in the second sentence of the final paragraph of the British Government's memorandum under acknowledgment. You should add specifically that if the British Government finds it possible to offer or, through the British banking group, to sponsor, any suggestion which will at the same time provide for meeting the requirements for the altered situation as it exists today and preserve in essence the fundamental principles and objectives of the Consortium, the American Government will be prepared to consider sympathetically such proposal.

Three. Please also inform Cadogan orally that the Department will, in making known to the American Group the

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British Government's proposal and the attitude of the American Government in regard thereto, ask the American Group to consider the entire matter as strictly confidential to itself and not repeat not for communication to any of the other banking groups until such time as one of those groups, presumably the British, approaches it.

Four. Inform Department by telegram when you have delivered memorandum and at the same time report such comments as may be made by Cadogan.

UK as edited

[Signature]

*not to be sent until
approved by the President.*

[Signature]

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m.m.H.
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Enciphered by

Sent by operator M., 19.....

MAR 2 1937

PH OPERATOR



EMBASSY OF THE
UNITED STATES OF AMERICA

LONDON, February 11, 1937.

No. 2850

SUBJECT: The China Consortium.

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*Copies to Peiping
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The Honorable
The Secretary of State,
Washington, D. C.

Sir:

1/ I have the honor to forward the text of the memorandum on the China Consortium which was handed me at the Foreign Office yesterday and reported to the Department in my No. 57 of February 10, 5 p.m.

The remarks made by Sir Alexander Cadogan, Under Secretary of State, at that time were in the main a resumé of the points made in the memorandum.

At the conclusion of our talk, however, he referred to a previous conversation he had with me, (reported in my note to the Chief of the Far Eastern Division dated December 16, 1936) and said that a very

vague

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vague general message of good-will in the form of an aide memoire had been given the Japanese Ambassador, in accordance with his desire. However, Mr. Yoshida had not up to the present time obtained leave to enable him to return to his country, nor, in the eyes of the Foreign Office, did he seem to have weight with his Government.

In forwarding this memorandum on the China Consortium, I venture two personal observations: First, that it is only one measure in developing British policy to increase their export trade; and, secondly, that this country is becoming aware of the great potentiality of China as a market for British goods, and, from every indication, the British Government is anxious to uphold and sustain and increase their position in that country. I hear Sir Frederick Leith-Ross continues to urge such a policy.

Respectfully yours,

W. A. Atherton,
Comptroller d'Affaires et d'Intérieur.

✓
Enclosure:

Memorandum on
China Consortium.

RA/HL

MemorandumThe China Consortium

The Consortium in its present form, applying both to administrative and to Industrial loans to China, was formed in 1920 mainly on American initiative with strong British support after prolonged negotiations lasting some eighteen months. Its purpose was the same as that which animated the signatories of the Nine Power Treaty, namely to provide the fairest possible conditions for the political and economic development of China by substituting cooperation for competition in the field of international action.

During the War and post-war period the economic development of China had been brought to a standstill by prolonged political confusion. But China has now reached a degree of political stability which makes further foreign borrowing both justifiable and expedient. During the past few years the National Government of China has been carrying through a large programme of internal development including not only many improvements and extensions of her existing railway system but also the construction of a number of new railway lines, bridges and road communications. Upon the achievement of this programme will largely depend the political and economic progress of the country. The cost is being met, in the main, by the issue of domestic loans. But it appears that the capacity of the internal market has been strained by the loans so raised and the financial structure in China would be greatly strengthened if a part, at any rate, of the capital required could be raised abroad. With this in view, the Chinese Government have recently negotiated settlements of existing defaults. Thus for the first time there is a reasonable basis for new development loans which would both
strengthen

strengthen the position of the Nanking Government and promote the prosperity of the country.

But under existing conditions the Consortium in its present form, instead of promoting the economic progress of China, as its authors intended, is an obstacle which stands in the way of such action.

The Chinese have always regarded the Consortium with dislike and suspicion. The terms of any loan made by the Consortium would, it was well known, include provisions for adequate security and proper conditions as regards the purposes to which the funds were to be applied and the methods of applying them. Each of the countries, members of the Consortium, including Japan, though it is not a lending country, could have a voice in the settling of these conditions. The Chinese Government apparently feared that this power might be used to impose political conditions and in any case, they objected to such "group treatment" which, like the unequal treaties, seemed to them to touch the independence of China as a sovereign state. They have therefore consistently refused to have any dealings with the Consortium or to recognise its existence in any way. Moreover, the Consortium itself, with its arrangements for joint negotiations, rotation of engineers, participation in the supply of materials, etc., was an exceedingly cumbersome machine either for negotiating with the Chinese or for the practical execution of industrial undertakings. This had been found to be the case with the Consortium as it existed, say, in 1919, before Chinese national feeling had risen to its present height; and in the post-war period the same obstacle prevented even the beginning of negotiations for the rehabilitation of railways in which British interests were deeply interested.

This explains the situation which during the last twelve months has actually arisen in China. A number of agreements for financing the import of materials for the construction of new railways have been signed with German, French and Belgian groups; but China has consistently refused to borrow from the Consortium.

As the United States Government are aware, some special loans have been negotiated with the Trustees for the British Indemnity Funds (in particular, for the completion of the Canton-Hankow Railway). But as regards any ordinary market loan towards the rehabilitation of China, His Majesty's Government felt that it was incumbent upon them to ensure that a genuine effort should be made to use the machinery of the Consortium, cumbersome though it was. With this end in view Sir C. Addison, the British representative of the Consortium group, after consultation with His Majesty's Government addressed to the other members of the Consortium on October 1 last a letter proposing the rescission of the open tender resolution adopted by the Consortium Council on 13th May 1921. The principle that all orders for goods supplied in execution of Consortium contracts should be put up to tender open to all the world formed no part of the Consortium Agreement itself of 1900 the terms of which had been so fully discussed between the Foreign Office and the State Department. The principle of open tender now conflicted with the existing restrictions on foreign trading in the United Kingdom. These restrictions were introduced by His Majesty's Government in order to prevent foreign loans being issued in London which would cause heavy transfers over the exchange and thereby prejudice their monetary policy of seeking after all to avoid undue fluctuations in the value of sterling.

Their policy in this matter was endorsed in the Three Power Declaration of last September and they would therefore expect that these restrictions would meet with the understanding and support of the United States Administration. The principle of open tender is believed also to conflict with the policy which other Consortium governments have adopted, for similar reasons, as regards foreign lending in their markets. Therefore it seemed to His Majesty's Government that if the Consortium were to be free to negotiate loans with China an essential preliminary must be the rescission of the Resolution relating to open tender. The other groups have either not yet replied to Sir C. Addis' proposal or have refused to accept it.

While this point yet remained unsettled the Chinese Government put the whole question of the Consortium in issue by making an offer to British interests of a contract for the construction of a railway line from Canton to Meih sien, a town near the Fukien border not far from Swatow. On being informed that the British group would have to offer a share of this contract to its Consortium partners the Chinese authorities expressed strong objection to any dealings whatever with the Consortium and, after hearing from Japanese sources that the Japanese wished to participate, refused to continue discussions on these lines. They have indicated that if the British interests approached are not willing to negotiate a purely British loan to China, they will open negotiations with German or French groups.

It would seem therefore that the continued existence

ence of the Consortium in its present form is, in fact, defeating its own object. It is preventing the members of the Consortium from participating in the economic rehabilitation of China and it is impeding instead of assisting such rehabilitation. In these circumstances His Majesty's Government desire to consult frankly with the United States Government in order to ascertain their views on the whole subject and discover whether there is any method by which, while restoring to its individual members the required liberty of action as regards industrial enterprises, the major objects of the Consortium could be attained by keeping in being co-operation between the governments concerned (including the Chinese Government).

An additional reason for entering upon a full consideration of, and frank consultation as regards, the policy which the United States Government and His Majesty's Government should now pursue in regard to the Consortium is to be found in the fact that, as His Majesty's Government understand, the American group, at any rate as at present constituted, could not in fact take any active share in a Consortium operation.

His Majesty's Government, for their part, would have been willing to co-operate in attempting to revise the existing Consortium agreement, to take account of the actual conditions that prevail today, if there were any prospect of obtaining the goodwill of the Chinese Government for such a revised arrangement. Having regard however to the attitude of the

Chinese

Chinese Government it is years to them that no good purpose would be served by attempting to proceed on these lines and in their opinion the agreement should now be dissolved by mutual consent. They understand that in the view of the banking groups the initiative in this matter should come from the Governments concerned and His Majesty's Government hope that they may be able to obtain the agreement of the Government of the United States. His Majesty's Government have thought it desirable to submit the whole position to the United States Government before approaching the other Governments concerned and they hope to be able to give a more definite expression of the views of the United States Government.

SECRET OFFICE

105 101 100 107.

A true copy of
the original
initial: Jm

China

June 22, 1937.

Letter to Pres. from Sumner Welles

Encloses copy of telegram from Bingham

in re- recent Chinese loan negotiations

with Great Britain conducted by Kung during

visit to London and in re-conversations had by

Sir Alexander Cadogan with the Japanese

Ambassador at London concerning China.

See--Great Britain --drawer 2--1937

china
[August 2nd, 1937]

My dear Dr. Kung:

I appreciate very much your letter of July 13th, which has given me much pleasure. I am happy to learn of the agreeable impressions which you take with you of your stay in the United States, and I may assure you that this Government fully shares the satisfaction you have been good enough to express with regard to the arrangements for economic cooperation between our two countries entered into as a result of your visit to Washington. Friendship between China and the United States is a well established tradition in our two countries. It will be the policy of my Administration to strengthen that enduring amity in every appropriate and practicable manner.

I have received with much gratification the photograph of President Chiang Kai-shek, as well as your own photograph, which you were good enough to send to me. I take much pleasure in sending to you, through my Ambassador to China, my own photograph, and I am likewise asking the Ambassador to deliver to President Chiang Kai-shek an additional photograph of myself as an evidence of my high esteem.

His Excellency
Dr. H. H. Kung,
Vice President of the
Executive Yuan and
Minister of Finance.

Mrs. Roosevelt joins me in extending kind regards to yourself.

Believe me

Yours very sincerely,

*file
personal*

DEPARTMENT OF STATE
WASHINGTON

August 2, 1937.

My dear Mr. President:

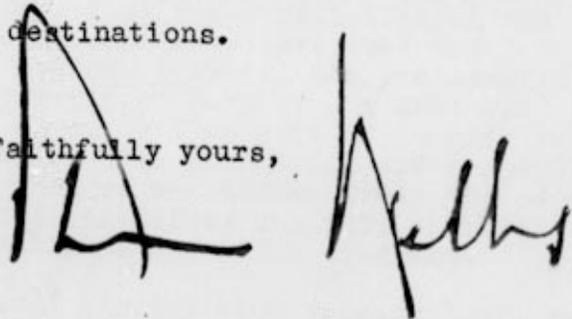
With reference to your memorandum of August 2nd, neither the Secretary nor I see any reason why you should not send photographs to President Chiang Kai-shek and to Dr. Kung. In fact, I think it would be a particularly desirable thing for you to do at this time.

I am enclosing herewith a suggested letter for you to send to Dr. Kung in acknowledgment of his letter to you of July 13th.

If this letter is satisfactory to you and you sign it, I would suggest that you have it sent to me, together with the two photographs, so that I may send them to Ambassador Johnson in Nanking for transmission to their respective destinations.

Believe me

Faithfully yours,



The President

The White House.

MINISTRY OF FINANCE

The Waldorf Astoria
New York City.
July 13, 1937.

Mr. Franklin D. Roosevelt
President of the United States of America
The White House
Washington, D. C.

Dear Mr. President,

On the eve of my departure from your great country, permit me to thank you for the hospitality which you were good enough to extend to me during my recent visits in Washington. It was a great privilege and pleasure to see you again and to be entertained at the delightful luncheon which you so kindly gave me. I was particularly glad for the rare opportunity of exchanging views with you personally on matters concerning the common interests of our two countries, and I shall carry back with me the spirit of the "Good Neighbor Policy" which you so wisely and nobly advocate.

I take this opportunity to assure you, on behalf of my Government and people, of our sincere appreciation for the sympathetic attitude and friendly cooperation which your Government has in the past extended to us in our task of achieving political stability and economic progress. The recent decision of your Export-Import Bank to participate in extending credit to the Chinese Railways and the new monetary arrangement which I had the satisfaction to make with Secretary Morgenthau mark further progress in our economic cooperation, which, I am sure, will tighten the bonds of friendship between us. We believe that the development of a strong, united, peaceful and progressive China is for the best interests of both of our nations. It is therefore our sincere hope, as I am sure it is also yours, that our two sister Republics will join hands and cooperate in all practical ways so that we may become truly custodians of peace in the Pacific and contribute our full share to the promotion of world stability and human progress.

Five years ago when I visited your country last, your people were in the throes of economic depression. Today I find the nation has regained its prosperity. The achievements which your country, under your courageous and statesmanlike leadership, has made in the various phases of its national life are most instructive and inspiring to us.

MINISTRY OF FINANCE

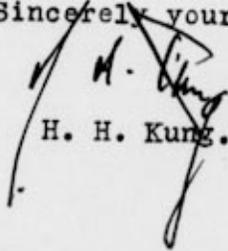
- 2 -

I assure you, Mr. President, that we in China watch with great joy and admiration the remarkable progress of your nation and wish you every success.

Under separate cover, I take pleasure in sending you a copy of my photograph and, on behalf of President Chiang Kai-shek, a copy of his photograph, which I hope will serve as mementos of my enjoyable visits with you. With these tokens of remembrance, please accept my highest respects and best wishes for you and Mrs. Roosevelt. I shall be much obliged if you will convey to Mrs. Roosevelt my appreciation for her kind letter.

I remain, Mr. President,

Sincerely yours,


H. H. Kung.

PSF: China
file
Private
China

NAVAL MESSAGE

RECEIVED NAVY DEPARTMENT

//////

NPG 6356

FROM; CINCOPAC
ACTION; AMERICAN AMBASSADOR CHINA
INFO; AMERICAN CONSUL TSINGTAO CHINA
STATE DEPT OPNAV C

021 STRONGLY RECOMMEND PROPOSAL OF ~~MM~~ MAKING ANY OR ALL OF TSINGTAO A
QUOTE SANCTUARY UNQUOTE FOR THE SAFETY OF THE MANY EUROPEANS AND
AMERICAN NOW RESIDING HERE TO YOUR EARNEST CONSIDERATION AT PRESENT BOTH
CHINESE AND JAPANESE AUTHORITIES IN TSINGTAO ARE EARNESTLY STRIVING TO
SOLVE PRESENT DIFFERENCE PERIOD IF THE NATIONS MOST INTERESTED COULD
UNITE IN SECURING AGREEMENT TO SUCH ~~MM~~ A PLAN BY THE CHINESE AND
JAPANESE GOVERNMENTS IT SHOULD BE A GODSEND TO SEVERAL THOUSAND AMERICANS
AND EUROPEANS NOW HERE 1905

13 ACTION(4)
05 10A 11 16 19 20 MARCORPS
STATE (2)
CWO 38 PX

024 ~~MM~~ BAMX 21 AUG/1942 *

Capt. Bostedor

DEPARTMENT OF STATE
DIVISION OF CURRENT INFORMATION

*file
china*

August 20, 1937

Mr. Early - White House

Dear Steve:

Attached is a copy of my memorandum of the Secretary's press conference in which he announced the decision to send Marines from San Diego to Shanghai. You might want to glance over it in anticipation of the President's press conference.

M. J. McDermott.

Joker-Lugar

OI:MJM:VN

CAUTION! The following is the record of the press conference of the Secretary of State on August 17, 1937. It has been mimeographed for the convenience of the correspondents. THE SECRETARY OF STATE IS NOT TO BE QUOTED DIRECTLY, THAT IS NO QUOTATION MARKS, but the substance can be attributed to him exactly as though this were written in the third person instead of the first. PLEASE OBSERVE THE RULE CAREFULLY

M. J. McDernott.

Department of State
Division of Current Information

MEMORANDUM OF THE PRESS CONFERENCE, TUESDAY, AUGUST 17, 1937

At the press conference this afternoon Secretary Hull said: I have here a list of Americans who have been brought out from Santander, Spain. I am also giving you Departmental Orders making Dr. Hornbeck an Advisor and making Mr. Hamilton Chief of the Far Eastern Division. It is very difficult to appreciate the need for more time to work out and develop questions of policy instead of having very little time for that on the part of a few of us and the balance of the time consumed in detailed routine things. Dr. Hornbeck has really been almost overwhelmed with the routine phases for some time and this is a peculiar situation where they need some additional help and with some time on the part of somebody to work on questions of policy. If we make any kind of a mistake on a question of policy, we expect to be raw-hided next morning, and I hope we won't be raw-hided when we seek a most necessary organization to guard as much as possible against mistakes and to assure accuracy of conclusions as to foreign policy.

FAR EAST

In the Far Eastern situation there do not appear to be any particular military activities this morning except in the Shanghai area. At least that is the area that is attracting all the attention.

We are asking for an appropriation of \$500,000 by Congress for all of the necessary relief and evacuation expenses that emergency phases may call for.

Now what I am about to comment on is something I think I should treat as OFF THE RECORD until it is written down and then probably we can give it all or virtually all to you FOR BACKGROUND. But in order to avoid misinterpretations and mistakes I think it is better for you and for me also to approach the matter in that fashion. I may say in the first place that this Government repeatedly has been urging the Governments of Japan and China not to conduct military operations or establish military bases in the Shanghai area. Furthermore since some outbreaks have occurred, the Government of the United States and some other Governments I happen to know of have very earnestly expressed the opinion to both of the Governments involved that both alike would be considered responsible by the nations of the world for any hurtful or destructive or serious military activities that take place in the Shanghai area, that this is in some respects an unusual locality, a great city of three million population in and about it built up more or less by the nationals of many countries of the world, as well as by China, and that for destructive or major or serious military activities to be instituted there or carried on would be calculated to result in unthinkable injuries and dangers both to persons and property, and that there can not be any justification for military activities there.

On yesterday Admiral Yarnell, in charge of the Pacific fleet, requested that the 1200 marines located at San Diego be sent over to Shanghai. It will require perhaps ten days for the preliminary preparation and about five weeks before they can reach Shanghai. Of course we are hopeful that by that time there will be no real need for these marines at Shanghai. They may be needed for relief and replacements of those located there at present, because of the strain of keeping guard over an indefinite period of time. The question might, in the judgment of some, come up as to why we should have any guards over there, or why we should send additional forces over there at this time. I think you will recall that for some time past the Great China area has not had in parts of the country that full measure of political stability that it once had and that it is steadily approaching now. The result was the Boxer attack on the Legations in 1900. I think it was in 1912 that another outbreak occurred and all the Governments having nationals over there sent additional guards. We then sent the regiment to Tientsin.

In 1927 there was an extreme nationalistic movement, and we chartered a ship and sent from San Diego to Shanghai a regiment of marines. In 1932 we had some similar experiences over there, as did other governments and other nations. Several countries had substantial numbers of nationals in this area. The question of what degree of protection, if any, this Government, as a policy, proposes to give its nationals abroad under given circumstances is one that is more or less misunderstood and perhaps one about which some people may differ, at least in degree or in toto. I may say that so far as this Government is concerned, the general and very definite principles governing normal and ordinary international relationships were embodied in a statement I gave out to the press here about a month ago (July 16) and I think more than fifty governments definitely and in writing expressed their approval of those principles. We, of course, stand on them so far as our general relationships with other nations are concerned. In this connection we seek at all times to promote and safeguard our standing and our influence from every standpoint of human progress

and

and human welfare, and to promote desirable relations - economic, educational, social, cultural, political - with all other nations.

Whenever our nationals in any part of the world are being denied equal protection of laws in countries where they are, or are being unfairly treated, this Government comes to their assistance by making earnest representations under international law as it is universally recognized and in support of the reasonable and rightful claims of our nationals. This applies to every square foot of the world's surface. But, as I said, we always undertake to carry forward this policy of cooperative international relations peacefully and in a manner mutually acceptable and mutually advantageous. The question of force is entirely out of mind. In the case of Spain we sent our vessels to any and every port and go out into the seaport towns, if necessary, and assemble our nationals who desire to escape from danger and carry them to places of safety, or at least away from immediate danger zones.

In countries where mob violence or violence of other disordered and unorganized groups, constituting no part of any organized military force of any government, are likely to sweep across thickly populated localities, we have made it our policy to send vessels to remove them from danger zones. For the purpose of dealing with special conditions such as I have referred to, we have had guards at three points in China, as you may know, just as several other governments have guards in those places, to protect nationals against mob movements or from the violence on the part of any other disorganized group or groups of persons. There is nothing better understood than that. All the nations having nationals in that area are in harmony with each other so far as protecting international areas allotted to the nationals of other countries as a place of safety is concerned, especially at time of threatened violence. They understand perfectly. There is no occasion for any clash between organized military forces of any country. Military forces are so instructed repeatedly and constantly. Any difference that might arise would be referred back to the capitals of their respective governments. It is solely to protect nationals against the kind of disorders that I have referred to that this and other countries have had guards stationed at three points.

We find ourselves naturally in between two extreme views. One is the view of extreme internationalism which rests upon an idea of political commitments. We keep entirely away from that in our thoughts and views and policies, just as we seek, on the other hand to keep entirely away from the extreme nationalists who would tell all Americans they must stay here at home; that if they go abroad anywhere for any purpose - tourist, urgent business, or otherwise, and trouble overtakes them and violence threatens, they must not expect any protection from their government. We could today order our guards to walk out of Shanghai and leave our 3,000 and more nationals who have not yet escaped to the mercy of a mob that was actually reported as threatening

there

there today. And we would leave the British guards and the French guards and the guards of other nationals who were there as are ours on legitimate business in this great metropolitan city to protect their nationals and ours while we move out lock, stock and barrel and hasten back to within the waters edge of this country. Now that viewpoint implies in the first place that we can very easily, by our action, just now create the definite impression in the mind of every other government in the world that we will get out gradually from this time forward in toto, and then you would find our Americans who were left behind there, as well as Americans in every part of the world, would probably be insulted with impunity by any and every nation.

The apprehension arises that somebody may get hurt if they don't get right out and stay out. Of course, something like that may occur, as, in fact, it has occurred within the last forty-eight hours. We are a nation of 130,000,000 people. We have nationals in every part of the world, as you know, living out their lives and at the same time proud of their home country and keeping up, mainly, their contacts with it. It is not our purpose in any sense, as we seek to protect our nationals against mob and other similar kinds of violence, to overlook a single thing that would contribute to the fullest understanding with every other government and between all the diplomatic and consular representatives of each government on the ground, as well as the various commandants. We in no sense contemplate any belligerent attitude toward anybody so far as the orderly functioning of the diplomatic and consular services of all governments interested are concerned or so far as organized troops or guards of any government are concerned. On the other hand, we **frankly** do not feel disposed, by leaning back too far the other way, to give other countries a chance to suppose or to suggest that we are cowardly. If we wanted to be insulted fifty times a week we only need to let the impression be gained that we do not protect anybody, in these perfectly legitimate ways I have spoken of and to that extent that in no circumstances would we be disposed to protect anybody. Now I am trying to avoid both of these extremes. And these policies are intended to reduce to the very minimum the happening of undesirable experiences on the part of this Government in its foreign affairs or of any experiences that would in the least be calculated to lead to misunderstanding or ill feeling as between us and other governments. Whether this middle course is the wisest and most practical is for the country to judge. We at least stand for these policies and for their application in the manner I have briefly indicated and for protection of our nationals under the circumstances and to the specific extent that I have indicated.

Therefore, this Government is, as a matter of precaution, ordering 1,200 marines to make preparations to sail for Shanghai. Of course, at any time if the threatened danger or real occasion for assistance there should disappear they can be notified on the high seas by wireless to turn back.

Q. Did you say at Santiago?

A. I meant San Diego.

Q. You also said that wouldn't be for five weeks -

A. It will take about five weeks for them to make preparations and get over there.

Q. I am new at this conference. Am I to understand the United States intends to keep our guard over there under all circumstances? That isn't a trick question, but I am very much surprised at what you said.

A. About the guard being there to protect our nationals?

Q. Under all circumstances.

A. I described specifically the circumstances. That is against mob violence or similar disorders that may break out and where organized military groups of China or other governments are not able to cope with them.

Q. I mean is the United States guard to remain there in case of an embargo, if we declare a state of war exists? I preface this question by saying I am not used to State Department procedure.

A. I am just learning it myself. The sole question that we have in mind there and I think it is a duty we cannot shirk is the question of reasonable protection to our 3800 nationals while mob violence or similar disorders, as I say, can be reasonably anticipated and guarded against.

Q. Mr. Secretary, I understand that most of the nationals in Shanghai have been asked or requested to leave Shanghai at the earliest possible moment. Do you contemplate that all of them will leave or the great majority will leave?

A. That is something that is difficult to forecast. I have the impression that beginning with women and children and aged persons generally about twelve or fourteen hundred will get out this week, leaving around 2500 there. Then as I say - I want to make this clear. We could get out post haste and leave that situation and say "To the devil with it"; "We won't have anything to do with it." Or we could take such other steps as would leave the definite impression which it would take us a time to overcome that we were practically scuttling for all purposes and whereas all these basic principles that govern international relations from our viewpoint are applicable to every square foot.

Q. What I am driving at, in the event all our nationals leave Shanghai, or the great majority, the Marine will remain in Shanghai.

A. That is another matter entirely. China has been coming forward in development of political and economic stability, as you know, and making real progress, and every phase of that is being watched with eager interest on our part with a view of having warrant for bringing our guards out. That has been on our minds for some time and we have given it constant attention.

Q. This specific situation, Mr. Secretary, is not a question of China regressing, the situation in Shanghai is due to warfare which the Chinese have not brought on themselves. What I have in mind, if the continuance of the war in Shanghai should make Shanghai a real theater of war and force our nationals to leave, like other nationals, we would still maintain those guards in the Bund?

A. As I have said, unfortunately for us you are not in a position to attend our meetings regularly --

Q. Sorry, Mr. Secretary, I will be in more frequently now.

A. We charge it up to you when you don't. Now I have said many times to our friends who are able to come in here that during the years several nations have felt obliged to keep guards for the protection of their nationals in such times as we have been passing through. By the way, there could never be a much more perfect illustration of the need for guards than the situation we are now passing through. If anyone has any doubt his mind should be cleared of it in view of the recent and present patent need for guards. The most exhaustive plan in every detail is worked out by the combined ambassadors, consular officers, trade commissioners, naval attaches, along with the commandants of the guards of each nation, designed to protect, to give the maximum protection, against whatever disorders may arise. Then when uprising and mob violence is apparent, just ahead, special instructions are sent from this Department about every phase of the precautions and every possible method or step that would be in the least helpful in perfecting all proper means of protection for our nationals. That includes warning in advance to our nationals to get out, get out of the way, keep out of the way until they get further notice. It includes every kind of advice for protection by the guards when they are going to ports, as from Tientsin or Shanghai, and from day to day, almost hour to hour, those people - the ambassadors, consuls, naval attaches, commandants of the guards and others who have had most experience in the Far East and in dealing with these conditions, are in conference with a view to meeting every emergency as it arises from hour to hour, and, of course, we can't give them instructions about those things at this distance. They know exactly when to send a group down. They know exactly from which direction threatened danger is coming. They know so much better than we do - outside the general zone, as we are - when to get out, when to order them out, so we leave the immediate thing to them while the emergency exists. I am glad you brought up the subject.

Q. Mr. Secretary, in view of the fact that some of the things you told us, might I ask one or two specific questions? Can you tell us the regiment of Marines? What the name is?

A. I forget the name of it.

Q. I will find that out. Can you tell us whether there is any specific sailing date, sir?

A. As I say, they will get ready in perhaps ten days to sail.

Q. Can you tell us who will administer the fund of half a million dollars? The Red Cross?

A. We will have the responsibility perhaps. That is left to Congress and I would rather not take it up until Congress has made disposition of the matter.

Q. May we get this straight as to the category of this. You said at the start it would be treated OFF THE RECORD.

A. Yes, I made the special request because there might be something here and there I had not stated clearly.

Mr. McDermott: I would like to make a suggestion. The correspondents

dents have to get on the wire with a certain amount they have. I suggest that only two points: the request for \$500,000 and the Marines. I think they can use that as announced. Just the facts. The rest please treat as background, not to be attributed to officials. Write all on your own until the Secretary has a chance to go over it and see what you can attribute to him.

A. There is this phase. I am a pacifist myself, so far as I am aware, but I try to deal as practically as I can with concrete conditions when they present themselves to me. Some persons without a little background relating to this Marine situation might draw an entirely too narrow conclusion about it.

Q. Mr. Secretary, wouldn't it be quite logical to interpret this as a relief for the Fourth Regiment?

A. A possible replacement. That is true.

Q. Mr. Secretary, there is one point that wasn't clear in my mind. There has been the urging of the State Department to evacuate nationals in Shanghai.

A. Yes.

Q. Is this a fair impression? On the one hand now we are urging women, children, tourists and aged to get out swiftly as possible, giving them all aid, and on the other hand no pressure is being brought on Americans whose life and business are in China. He is going to be given protection and not going to be abandoned.

A. It will be suggested to all that they get out, you understand, but asking them to do it and their actually doing it is another proposition.

Q. I meant the men who lived there, with money and property there.

A. I just gave a list of refugees taken from Santander in Spain. They were warned more than eight or ten months ago to get out.

Q. These business men will be told it is not our intention to abandon them.

A. Of course, they take considerable risk there. Our guards are not there to insure their safety by any means, but are there to do the best they can when mob violence or something else flares up and disease and hunger. There are two big factors that make their appearance in the wake of these conditions. Another reason why we want to get them out.

Q. Mr. Secretary, just what is the procedure when you ask Congress for the sum of money?

A. We first present it to Mr. Bell, of the Budget organization, and then we depend on him to aid in accelerating it.

Q. Mr. Secretary, how will the Marines be transported?

A. On a transport.

Q. Will the transport be accompanied by further warships?

A. I haven't gone into that matter. The only thing I did go into was the question of a transport to take these 1200 Marines.

Q. There is no plan at present to increase the Asiatic squadron?

A. No, nothing of any consequence.

Q. Mr. Secretary, is there anything you could say about the Neutrality Act?

A. I said yesterday we were giving that matter most careful attention and consideration from day to day.

Q. In other words, the situation remains the same until the Administration is satisfied an actual state of war exists.

A. As I say, that is all I can say. Otherwise, I would discuss every phase of those questions in the circumstances. I would cause you people to miss lunch and I do not want to do that.

Q. Mr. Secretary, you have told us here something that will be regarded as important, and I might say even a historical enunciation of American policy. In going over the remarks it would be appreciated if you would let us use what you can and take it out of the realm of OFF THE RECORD or BACKGROUND because you are the authority from whom it must come.

A. I hope you folks realize I told you very little new, merely repeated what our government and most civilized governments have done in the past in the way of protection of their nationals.

Q. It does clear the air at this point.

A. I just wanted you not to forget that I haven't told you anything new.

M. J. McDermott.



P.F.
file
China

THE SECRETARY OF STATE
WASHINGTON

August 27, 1937.

The Secretary of State encloses copies of the telegrams and despatches indicated below.

Since some of this material was transmitted in one of the Department's confidential codes, it would be appreciated if the enclosures could be returned to the Department as soon as convenient for appropriate disposition.

Enclosures:

Telegrams Nos. 184, August 26, to Nanking;
169, August 26, to Tokyo;
185, August 26, to Nanking;
86, August 26, 5 p.m., Caracas;
234, August 26, 10 p.m., Moscow;
561, August 27, 2 p.m., London;
26, August 26, 9 p.m., Hong Kong;
158, August 26, 6 p.m., Buenos Aires;
1203, August 26, 4 p.m., Paris;
- , August 27 to Secretary from
Congressman Celler;
322, August 27, 7 p.m., Tokyo;
203, August 27, 3 p.m., Berlin.

TELEGRAM SENT

RB

GRAY

August 26, 1937

7 p. m.

AMEMBASSY

NANKING (CHINA) VIA N. R.

184.

In view of the present Sino-Japanese disturbances in China it would seem to be desirable that notification be sent to American nationals and concerns in China in relation to steps to be taken by them to obtain and put on record evidence of losses and damages suffered during the disturbances. It is suggested that such notification should be substantially as follows:

While the American Government cannot in advance and without examination of their respective merits undertake to espouse or to present claims against the Chinese and Japanese Governments which may be presented to the American Government by its nationals for losses, damages, or injuries to life or property resulting from present military operations in China, nevertheless, with a view to making clear the essential requirements of the procedure for and the steps which claimants would be well advised to take with a view to possible eventual presentation of such claims, suggestions are offered as follows:

Evacuated

RB

-2-4184, August 26, 7 p. m. to
AmEmbassy Nanking

Evacuated Americans should file with the Consulate inventories of property and best possible evidence as to exact location, quantity, and value of destroyed, looted, abandoned, or occupied property for which they may desire indemnity. In the case of those nationals and concerns who expect to remain on the ground unless forced to abandon their properties, it is of essential importance that they take immediate steps to make a careful inventory of their properties and that this inventory be supported by competent corroborative evidence, if procurable, and sworn to before the American Consulate. Where possible, corroborative evidence of eyewitnesses as to the destruction, looting, or forced abandonment, or occupation of property should be obtained and especially should effort be made to identify the persons or forces occupying or responsible for the losses or damages. Bills of sale, receipts, or other documents tending to establish the quantity and value of the property should be obtained or if already in the possession of claimants should be retained for future reference. Particular stress should be laid upon the necessity for first-hand evidence to establish the identity of the force or forces or individuals who caused the losses, and the extent

RB

-3-#184, August 26, 7 p. m. to
AmEmbassy Nanking

extent of the losses. Where any goods or properties are taken over under requisition by either Japanese or Chinese authorities, requisition receipts should be obtained wherever possible.

In personal injury or death cases, evidence should be obtained whenever possible as to the identity of the persons or forces that caused the injury or death, and the sworn statements of persons, including attending physicians, who can testify of their own knowledge as to the injuries or their effects, or as to the death and its causes, should be obtained.

Please inform Peiping and consular offices in China, exclusive of Manchuria.

HULL

LE:HBC:FEH:SS PA/H S

TELEGRAM SENT

RB

GRAY

August 26, 1937

7 p. m.

AMEMBASSY

TOKYO (JAPAN)

169.

The Department desires that you present a note to the Minister for Foreign Affairs reading as follows:

"Acting under instructions, I have the honor to inform Your Excellency that my Government reserves all rights on its behalf and on behalf of American nationals in respect of damages to or loss of American property or on account of death or injuries sustained by American nationals as a result of the activities of Japanese armed forces in the course of or incident to military operations now in progress in China."

Similar instruction to Nanking.

HULL

LE:HBC:FEH:SS FE PA/H

TELEGRAM SENT

RB

GRAY

August 26, 1937

8 p. m.

AMEMBASSY

NANKING (CHINA) VIA N. R.

185.

The Department desires that you present a note to the Minister for Foreign Affairs reading as follows:

"Acting under instructions, I have the honor to inform Your Excellency that my Government reserves all rights on its behalf and on behalf of American nationals in respect of damages to or loss of American property or on account of death or injuries sustained by American nationals as a result of the activities of Chinese armed forces in the course of or incident to military operations now in progress in China."

Similar instruction to Tokyo.

HULL

LE:HBC:FEH:SS FE PA/H

JR
This telegram must be
closely paraphrased be-
fore being communicated
to anyone. (A)

Caracas

Dated August 26, 1937

Rec'd 6:54 p.m.

Secretary of State,
Washington.

86, August 26, 5 p.m.

The Charge d'Affaires of Brazil called at the Legation today and stated that he had received telegraphic instructions from his Government yesterday to try and obtain a more positively favorable reaction from the Venezuelan Government to the projected leasing of destroyers to Brazil than the indifferent attitude thus far evidenced and to enlist if possible the cooperation of the American Legation to the same end. He also stated that he had received from reliable sources close to the President confidential information that Venezuela was quietly negotiating the purchase of one or more warships from Italy.

Shortly afterwards the French Minister called by appointment and asked if we were informed that Venezuela was treating secretly with Italy for the purchase of warships. He said that his Government would view such a transaction unfavorably, and he gave the impression that he hoped for some manifestation of disapproval from the American Government.

Rumors

JR 7/86, August 26, 5 p.m., from Caracas.

Rumors of these negotiations have been reaching the Legation for some time, but without confirmation, and I am inclined to discount them in view of the Foreign Minister's open and very friendly relations with this Mission. The source of these reports may be the actual negotiations, confirmed by Captain Larrazabal, Director of the Venezuelan Marine, for the purchase in Italy of a small transport, of light draft to cross the Maracaibo Bar, to carry troops from one part of the country to another to strengthen the Government's police arm.

NICHOLSON

SMS:NPL

JR
This telegram must be
closely paraphrased be-
fore being communicated
to anyone. (D)

Moscow

Dated August 26, 1937

Rec'd 7:30 p.m.

Secretary of State,
Washington.

234, August 26, 10 p.m.

I am setting forth herewith certain impressions obtained by this Mission of present Soviet policies and tactics with respect to the Far East. These impressions have been gained from a study of the Soviet press and from conversations with Soviet officials, members of the local diplomatic corps including Japanese and Chinese Ambassadors and other qualified observers.

One. The Kremlin is pleased that the Central Government has finally begun to offer armed resistance to Japan and is hoping that with the development of hostilities Japan will become so deeply enmeshed in Central China that it will not be able to pursue an aggressive policy to the North.

Two. Although Soviet press and spokesmen intimate the desirability of collective action on the part of Western powers in order to prevent spread of hostilities, it is believed that they would have little real sympathy for any movement which might promise peace unless such

movement

JR #234, August 26, 10 p.m., from Moscow.

movement would be of a kind likely seriously to weaken the military power of Japan.

Three. The Kremlin is determined that the Soviet Union should not become embroiled, nevertheless, it does not desire for reasons of prestige that Japan or China should gain the impression that it will tolerate affronts. It is therefore, protesting such provocations as the recent raids on the Consulate at Tientsin and Shanghai vigorously but at the same time in such a manner that disputes arising therefrom are not likely to develop into issues solvable only by armed conflict.

Four. Soviet press and officials make no secret of Soviet sympathy for China. They are careful, however, to express this sympathy in a manner which would not give Japan ground to charge active intervention.

Five. Kremlin apparently has directed its adherents in China to support the Central Government so long as that Government follows policy of resistance to Japan. It is believed, however, that Moscow would use such influence as it has over Communist and Left Wing elements in China to prevail upon them to work for the overthrow of Chiang Kai Shek in case he should embark on policy of temperization or mediation with Japan.

Six.

JR #234, August 26, 10 p.m., from Moscow.

Six. General impression is that Soviet Union has not as yet begun to furnish military supplies to China. Whether it will do so in the future depends almost entirely upon general international situation, direction of development of hostilities, policies of Chinese Government, and so forth. Difficulties of transportation are such that supplies in any event would probably be limited largely to certain types of aircraft.

Seven. Soviet Government is apparently extremely anxious that the route from outer Mongolia to China through Kalgan should not fall into Japanese hands. There is even a possibility that Soviet Union would take active steps to assist Chinese in defense of route in case Japanese should seriously threaten it.

HENDERSON

SMS:RGC

MG

GRAY

Hong Kong via N.R.

Dated August 26, 1937.

Rec'd 6:45 a.m. 27th.

Secretary of State,
Washington.

August 26, 9 p.m.

Hong Kong British press continues to be violently anti-Japanese to a degree remarkable for British newspapers. British civilian opinion is anti-Japanese but less outspoken than the press.

British military headquarters informed me yesterday that while they personally believe more troops should be sent to Shanghai the War Office is not in full and complete sympathy with them however, one battalion of the Middlesex Regiment which arrived here August 24th is prepared to proceed Shanghai upon 12 hours notice.

Comment on the attitude of the United States has been practically nil until today when the HONG KONG TELEGRAPH in answering editorial dealing with the Secretary of State's appeal to Japan and China to "refrain from resorting to war" said that "with the facts as they are, however" the time has arrived for something more definite and pointed by foreign spokesman than a uniform appeal to both sides.

MG

Page 2,
From Hong Kong
August 26, 9 p.m.

sides. Japan is the guilty party, not China, and should be plainly warned that this is the view which other nations take of her actions."

Nanking informed by radio, Shanghai by mail.

DONOVAN

WWC

DDM

lw
A portion of this telegram
must be closely paraphrased
before being communicated to
anyone. (A & B)

Buenos Aires

Dated August 26, 1937

Rec'd 7:15 p.m.

Secretary of State

Washington

158, August 26, 6 p.m.

(GRAY) LA PRENSA today carries special press despatch
by Heath indicating the possibility that negotiations may
begin soon on a commercial agreement with Argentina.

(END GRAY)

The Argentine attitude of the moment seems more favorable toward giving us better treatment than it has been for some time and I note signs of a willingness to do more provided they have some assurances of a trade agreement being negotiated in the near future.

A few days ago the Under Secretary of Finance and the head of the Exchange Control Board suggested to the Embassy that it might be possible to come to some verbal arrangement whereby Argentina would in fact--if not (?)--grant official exchange to (?) our exports to Argentina for a period of say six months with the understanding that trade treaty negotiations begin before that time had elapsed. In case negotiations should not begin then the

Argentines

lw 2, No. 158, August 26, 6 p.m., from Buenos Aires.

Argentines would revert to the status quo ante. A suggestion along similar lines was made on June 15 also by the Under Secretary, and formed a part of the Embassy's telegram 88, June 16, 3 p.m.

I should appreciate any comment from the Department particularly on the likelihood of negotiations beginning.

Were the Embassy accordingly to assure the Argentines that trade negotiations would begin shortly or within some specific period, I feel that we should be able to secure better exchange treatment, if not entire relief from the present discrimination. And if possible a strong intimation of our hope would be helpful.

WEDDELL

KLP
WVC

RB

CODAT

Paris

Dated August 26, 1937

Rec'd 4:51 p. m.

Secretary of State

Washington.

1203, August 26, 4 p. m.

FROM COCHRAN.

Trading still very light on Paris exchange. Forward franc continues to be wanted and rentes better. Bank of France statement as of August 19 showed no new advances to Government but Treasury account down to 72,000,000 francs; with circulation lower coverage was 53.14 versus 52.78. Market found nothing particularly disturbing in new series of decrees mentioned below but inclined to consider them artificial rather than productive.

Under the special authority accorded the Government by the law of June 30, 1937 a further series of financial decrees was promulgated in today's Journal Officiel providing chiefly for the following:

One. An immediate inquiry into production embracing 13 branches of industry. The Inquiry Committee will include in addition to officials of Government departments, representatives of employers and of labor. Its task will be to propose such measures as may be necessary to improve production

RB

-2-/#1203, August 26, 4 p. m. from
Paris

production and in a general manner the situation of agriculture, industry, and commerce.

Two. Improvement of commercial and industrial equipment of commercial and industrial equipment for the rapid increase of production through Government aid. This includes technical assistance from the Credit National by means of the allotment preferably to smaller trade and industry of interest rebates for a period of four years at most and to a maximum annual amount of 35,000,000 francs not to exceed 4 percent nor be more than 50 percent of the interest actually paid on the mortgage. The rebates will be turned over to a special account opened with the Credit National in the name of the firm concerned and which can only be debited for the payment of the interest due.

Three. Promotion of the building industry through lower money rates, interest rebates as above with assistance of Credit Foncier to a maximum of 40,000,000 francs and certain tax exemptions;

Four. Easier formalities for mobilization of Government securities to permit quicker obtaining of advances from the Bank of France on registered state securities. Other

DECREES

RB

-3-#1203, August 26, 4 p. m. from
Paris

decrees relate to various branches of state credit price control, reinforcement of supervision over insurance and investment companies, pensions, price of wheat. The decree relating to the suppression of the ten percent levy on rentes coupons though approved is held over perhaps to include other securities such as those of the Credit National and railways.

BULLITT

SMS

NPL

MG

GRAY

London

Dated August 27, 1937

Rec'd 9:05 a.m.

Secretary of State,
Washington.

561, August 27, 2 p.m.

Article in the DAILY EXPRESS today from correspondent at Shanghai states inter alia "American Consular officials are surprised at Sir Hugh E. Knatchbull-Hugessen's failure to warn the Japanese that he intended driving through dangerous territory" Vansittart sent for me this morning and pointed this out to me. He said he hoped it was not true that any American Consular officer at Shanghai had made such a statement and expressed the wish that it might be brought to the attention of the Department as it is bound to create some difficulty for the Foreign Office and to be the occasion for questions.

His observations were made very mildly and I gather that he regards the matter as not necessarily serious but to be regretted and as not helpful in the present difficult situation.

JOHNSON

PEG
WWC

JR

This telegram must be closely paraphrased before being communicated to anyone. (C)

Berlin

Dated August 27, 1937

Rec'd 11:54 a.m.

Secretary of State,
Washington.

203, August 27, 3 p.m.

I learn indirectly through German police sources customarily reliable that orders have been issued to the secret police to begin preparations for a probable visit of Mussolini to Berlin on September 26.

Copies by mail in code to Rome, Paris, London.

GILBERT

KLP

FS

GRAY

Tokyo

Dated August 27, 1937

Rec'd 12:21 p.m.

Secretary of State,
Washington.

322, August 27, 7 p.m.

Senior aide to Navy Minister stated this afternoon to Naval Attache as follows:

Question. What was meant when you stated "blockade aims principally at destroying the fighting power of the Chinese and will not unnecessarily seize Chinese vessels and confiscate the cargoes aboard them" and "Japanese will duly respect peaceful commerce being carried on by the third powers and will never interfere with it".

Answer. The purpose of the blockade is to prevent war supplies getting to the Chinese forces. As no war exists Japan will not interfere with the commerce of any nation other than China. Interference with Chinese trade only to the extent of confiscating war supplies on Chinese ships. By "peaceful commerce of third powers" is meant ordinary commerce which now might include cargo of a warlike nature.

A

FS 2-No. 322, August 27, 7 p.m. from Tokyo

A hypothetical question was asked as to what would happen to a Canadian Pacific or Dollar Line vessel bound for Shanghai with war material known to be destined for Chinese forces. The answer was "No interference would be made with that vessel". When asked as to the "status of Chinese vessels owned wholly or in part by third party" the answer was "war supplies, if on board would be confiscated, vessel and remainder of cargo would be subsequently freed".

Armies in Shanghai are consolidating positions while awaiting the arrival of supplies such as ammunition and, probably, artillery. Army transports were said to be used for this purpose. No offensive has been undertaken as yet, except as necessary to gain and maintain positions. Combined fleet has retired. They have had their inning and will undoubtedly not be used for this purpose again. No army aircraft are operating in Shanghai area yet, fields in that vicinity not having been completely prepared. When asked whether the army expected to move against Hangchow, the reply was that such was a general staff matter. When asked at the purpose of landing troops in Hangchow Bay, Senior aide stated landing there was only a rumor.

Situation in Tsingtao quiet, has not changed in the

last

FS 3-No. 322, August 27, 7 p.m. from Tokyo

last 48 hours. Japanese nationals, however, are being evacuated.

Repeated to Shanghai for relay to Nanking.

PEG:WWC

GREW

FS

Washington, D. C.

August 27, 1937

Rec'd 1:34 p.m.

Honorable Cordell Hull,
The Secretary of State,
Washington, D. C.

I respectfully yet vehemently protest acceptance by Mr. Prentiss Gilbert, our Charge d'Affaires in Germany acting for Ambassador Dodd, now absent, of an invitation extended by Fuehrer Hitler to attend the purely political National Socialist Party Congress in Nuremberg in September. Heretofore such invitations to a purely political party convention have been firmly yet politely refused by United States, by England and France. At such a congress republics and all forms of democratic government are excoriated and the Nazi form of government extolled. It is like hurling insult at invited guests. Acceptance brands us as imbeciles. Heretofore the spurned invitation annually came from the Chief of the National Socialist Party. The invitation should not be accepted this year because Hitler personally makes the request. The drug is still poisonous despite the label. Honest dealing, regard for our national honor, protection of our Government from insult and our officials from castigation, demand refusal, otherwise you, as Secretary of State, will

be

FS

2- from Celler, August 27

be subject to SEVERE criticism. Such an invitation is equivalent to your requesting the German Ambassador to attend the Republican or Democratic National Convention there to be told that the Nazi regime is a fraud on its people. Such an invitation would be flung in your face. It is hoped you will issue appropriate instructions to prevent appearance of our representatives at such a gathering.

CONGRESSMAN EMANUEL CELLER